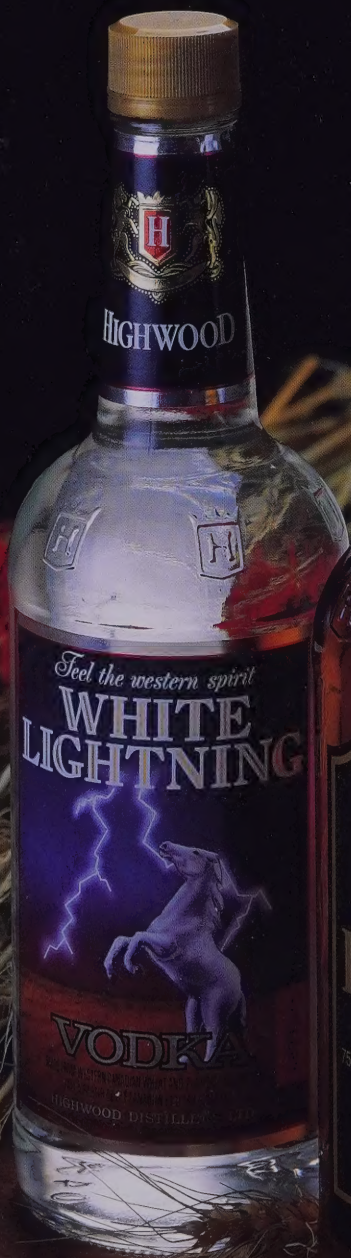


# Highwood Distillers Ltd. Annual Report 1995







# 1995 Highlights

## Financial

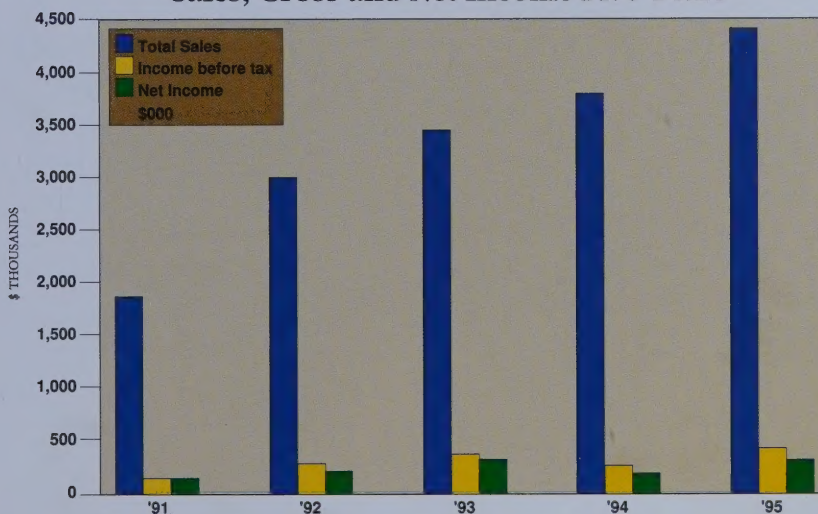
(thousands of dollars except where noted)

	1995	1994	Increase/ (%) Decrease
Revenue	\$ 4,441,344	3,772,683	17.7%
Net Income	292,889	153,941	90.3%
Earnings Per Share	0.029	0.016	81.3%
Cash Flow from Operations	371,032	(273,665)	235.6%
Cash Flow Purchase Per Share	0.037	(0.029)	227.6%
Working Capital	1,704,222	1,051,522	62.1%
Total Assets	2,986,046	2,652,127	12.6%
Long Term Debt	1,144,582	745,855	53.5%
Shareholders Equity	1,410,598	1,117,709	26.2%
Return on Equity	20.8%	13.8%	50.7%
Outstanding Shares	9,975,000	9,975,000	—

## Operations

Domestic Case Sales	108,420	98,204	10.4%
International Case Sales	20,270	894	2167.3%
Total Case Sales/% Increase	128,690	99,098	30.0%

Sales, Gross and Net Income Five Years





## Corporate Profile



High in the rugged Rocky Mountains west of Calgary, melting glaciers give birth to gentle streams of pure cold water. The crystal clear streams tumble down tree covered slopes and grow into the Highwood River rushing through the foothills of ranchland Alberta toward destinations in the oceans of the world. On the banks of the Highwood River, in the heartland of Canada's cowboy country, sits the town of High River: home of the spirit of the west, home of the World Chuckwagon Racing Championships, and home of Highwood Distillers.

Highwood's modern distillery, with over 40 employees, produces high quality alcohol spirits in the finest Canadian tradition known around the world. Highwood began distilling in 1974 under the name Sunnyvale Distillers. In 1987, it was bought by a group of Calgary businessmen who then took the company public in 1989. Each year since then, sales and market share have grown as the market for Highwood's family of distilled spirits expanded across Canada and, beginning in 1992, across the oceans of the world. Highwood's directors, managers, employees, and sales agents apply the aggressive robust pioneer spirit of the west to ensure the successful and continual growth of the company's business. Like a mountain stream growing into a rushing river.

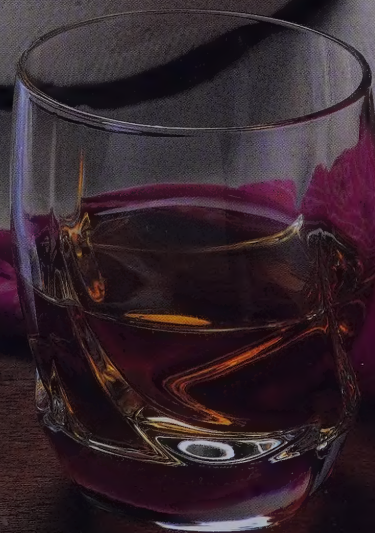
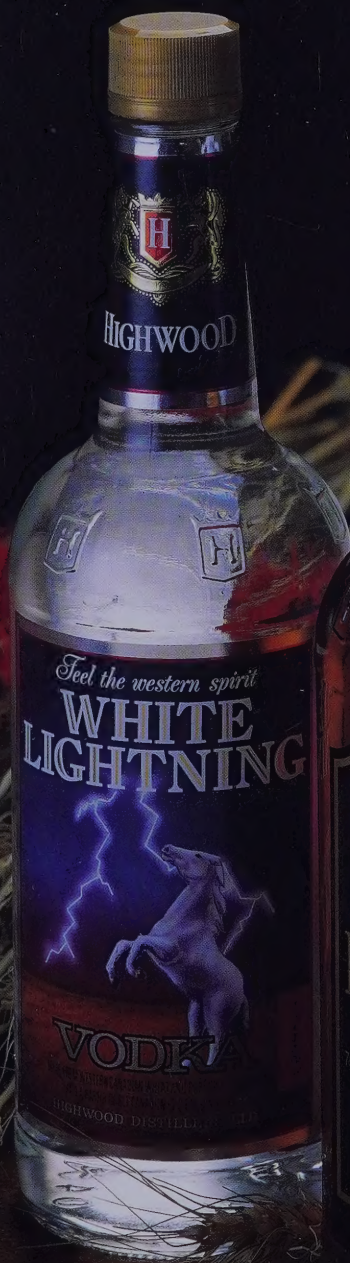
### *Annual Meeting*

The Annual Meeting of shareholders of Highwood Distillers will be held at 3:00 p.m. (Calgary time) on Thursday, July 27, 1995 at The 400 Club, 710 - 4th Avenue, S.W. Calgary, Alberta, Canada. Shareholders are encouraged to attend, and those unable to do so should complete the Forms of Proxy and forward it at their earliest convenience.

### *Company Products*

- Highwood Canadian Rye Whisky
- White Lightning Vodka
- Highwood White Rum
- Marushka Vodka
- Colita Coffee Liqueur
- Black Russian Paralyzer Premix
- Old Mexico Tequila
- Old Mexico Margarita
- Highwood Orange Triple Sec
- China White Creme De Cacao
- Canada Best Rum
- Long Island Ice Tea Premix
- Canada Best Whisky
- Canada Best Gin
- Sunnyvale Gin
- Canada Best Vodka
- White Lightning Neutral Spirit
- CLANROY Scotch
- Centennial Whisky
















A low-angle photograph of wheat stalks against a clear blue sky. The sun is positioned in the center, creating a bright starburst effect. The wheat stalks are silhouetted against the sky, with some catching the light from the sun.

*World renowned wheat from Western  
Canada, Rocky Mountain glacial water and  
the creative hand of a world class blender . . .  
this is the soul of Highwood Distillers.*



## Chairman's Report to the Shareholders



One year ago in this report we said that we expected for fiscal 1995: continued growth in Canadian sales and substantial increases in international sales. Both goals were achieved. And Highwood is now stronger financially.

In the year ended January 31, 1995 Highwood's sales increased 18% to \$4.44 million from \$3.77 million a year earlier. Income before corporate tax leaped 80% to \$ 437,411 from \$242,859 in fiscal 1994. We responded to the challenge presented by Alberta's privatization of distribution in the alcohol spirits industry. General listing of Highwood products increased in British Columbia. New agencies improved our sales programs in Saskatchewan and Manitoba. Canadian market penetration continued. Margins improved. Market share increased.

Export sales of \$487,789 accounted for 11% of total sales. This is a giant leap from the \$30,625 for the previous year. We believe it is but a small first step on a highly rewarding international journey.

All of Highwood's key financial statement ratios improved during the year. Shareholders' Equity increased 26%. The Altman Z Score, an Index of a company's general financial health, rose to 6.79; a score above 3.00 is considered very healthy.

Two other developments are noteworthy. One, we significantly strengthened Highwood's financial position by issuing a \$750,000 convertible debenture to the Canadian Maple Leaf Fund (Alberta) Ltd., one of the largest immigrant investor funds in Canada. The monies were used to repay bank debt, and increase working capital. Two, we entered an agreement for the establishment of a joint venture, a project to complete construction and manage a major brewery in the Republic of Georgia, the most stable country in the former Soviet Union.

In the year ahead Highwood's focus will be on two fronts.

One, we will continue to build on the successes of our aggressive domestic marketing strategies. There is lots of room for significant orderly growth in our Canadian sales and net income.

Two, we will continue to pursue profitable export sales of Highwood's popular "Made in cowboy country" Alberta products. Last fiscal year proved that we can sell in the international marketplace. Now we plan to build on that success and make our export sales a much larger percentage of total sales and net income.

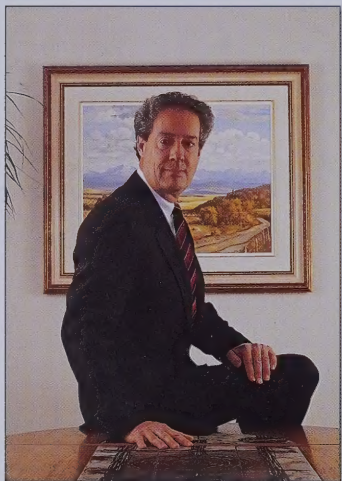
Highwood has quality products and an action plan for growth in all aspects of our business. Prospects for significant growth are greater than ever in our six year history as a public company.

Our genuine gratitude is extended to our sales agencies, customers, distributors, and suppliers for their confidence and co-operation. And we sincerely thank our employees and shareholders for their contributions to Highwood's success. Together we can share in the realization of our potential through continued development and growth of our business around the world.

Phillip A. Peterson  
Chairman of the Board



# Management Discussion and Analysis



Ronald Stothers  
President

## Operational highlights

There were two distinct highlights in Highwood's operations. One, domestic sales and margins rebounded with real gusto in the fourth quarter. The strategies implemented to get back on track after a disappointing first half resulted in our best ever fourth quarter and vigorous growth for the entire year. Those early-in-the-year stumbling blocks were turned into late-in-the-year stepping stones. Two, the success in export sales shows that our international marketing strategy is beginning to produce the results we want. More importantly, it holds promise for substantial market expansion.

## Results from Operations

In analyzing the year's operations we see some very positive results. And we see some apparent setbacks that are serving as springboards for growth in sales and margins. Domestic case lot sales were 108,420, an increase of 9.4%. Exports of 20,270 cases brought the year's total shipments to 128,690, an overall increase of 29.9%. That is Highwood's best ever. Yes, we are not the biggest distiller in the land. But we are growing faster than most of our competitors.

In Alberta, our strongest market segment, case lot sales surged ahead by 15,428, a 35.5% increase. Manitoba, Newfoundland, and N.W.T. case sales grew by a combined 1,584, a 25.5% increase. Saskatchewan shipments were down 4,638, a 27.6% decrease, primarily due to a new sales agency being put in place, and the subsequent learning curve in a new marketplace. B.C. shipments remained basically unchanged at 29,350 cases. We have closed our Ontario operations and are applying our marketing resources to export sales. This has proven to be a wise decision.

An apparent setback, lower first half margins in Alberta, was turned into an increase in market share. This became a springboard when margins improved, as evidenced by our increase in Net Income for the year. Weaker first half sales in Manitoba and Saskatchewan brought about improvements in our sales agencies, another springboard that helped forge the strong fourth quarter.

On the cost side, the percentage increase in Cost of Sales was greater than that of Sales, a reflection of the pressure on margins. But Operating Expenses were held in check, an important contribution to the bottom line results. These quick improvements underline the good old western horse sense wisdom of Highwood's sales compensation strategies: agents' pay are based on performance.

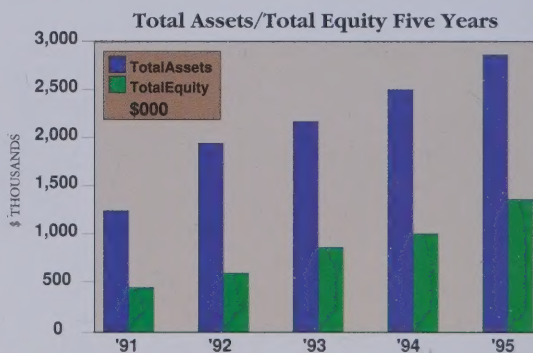
On capital improvements, the Board of Directors authorized a thorough analysis of the effectiveness of our bottling line and the subsequent study of alternatives to assist us in meeting present and future demand. To this end, Highwood will be investing \$150,000 in a new bottling line expected on stream by August, 1995.

## Outlook

For the year ending January 31, 1996, domestic sales are expected to increase 10%, to 120,000 cases. We expect margins to increase slightly. Export sales are expected to increase at a much faster rate. We have the capacity to ship, domestic and international, as many as 250,000 cases.

The Board of Directors has approved a budget to explore the feasibility of the potentially large brewery project in the Republic of Georgia without risk to Highwood's plans for growth in domestic and export sales of distilled spirits.

Our optimism for Highwood's future is very high. So is our confidence that we can carry out our aggressive plans.





## Market Overview

From its High River distillery deep in the heart of ranchland Alberta, Highwood has efficiently and effectively expanded its markets, first in Alberta, then across Western Canada and into Atlantic Canada. International sales began in 1993.

Highwood's marketing strategies are based upon an aggressive sales and marketing force, top quality products and low production costs. Continuous feedback from sales agents, distributors, retailers and market surveys helps Highwood stay on top of consumer preferences, competitive products and market trends. Production efficiency helps convert strategic market information into strong margins and increased market share. Highwood is market driven. Production is allocated to satisfy market demand wherever it meets our business plan for sales and net income growth.

### *Domestic*

The overall Canadian market for distilled spirits is a mature market. But there is lots of untapped potential for an efficient nimble marketer to profitably satisfy niche demands through astute distribution alliances and creative product development. As expected, Highwood's sales are strongest in Alberta. Each year's experience improves market performance in the other western provinces. Highwood is co-operative and proactive in dealing with government regulators in ongoing efforts to reduce interprovincial trade barriers.

### *Export*

Canadian business has a solid international reputation for integrity. Canadian distilled spirits enjoy a world wide reputation for high quality. Albertans have developed an international reputation for being free spirited, fun loving, hard working "cowboys". The western "cowboy" is recognized and admired worldwide. Highwood's export marketing strategy is designed to take advantage of these reputations while satisfying specific product demands in destination markets.

During the past few years we have been laying the groundwork with international distributors for sales into more than a dozen countries. In the past year profitable export sales jumped from almost nothing to 11% of total sales, proof that export markets promise to be very rewarding.

#### 1995 Canadian/International Market Share/Case Sales

	<i>Market Share</i>	<i>Case Sales</i>
Alberta	4.06%	58,944
Saskatchewan	2.75%	12,140
Manitoba	1.06%	6,628
British Columbia	1.93%	29,551
N.W. Territories	2.38%	930
Newfoundland	0.04%	227
<b>Canadian Totals</b>		<b>108,420</b>
<b>International</b>		<b>20,270</b>
<b>Total Case Sales</b>		<b>128,690</b>



# Five Years Growth

*Fiscal Years (Year Ending January 31st)*

1991

1992

1993

1994

1995

## CASES

Case Sales (000's)	54	81	94	99	128
Percent (Increase)	55%	49%	16%	5%	30%

## MARKET SHARE

Total Domestic Market Share (%)					
Number of Provinces	4	5	5	5	5
Average Domestic Market Share (%)	1.15	1.32	2.19	2.43	2.44

## FINANCIAL (\$000's)

Gross Revenues	1,917	3,000	3,441	3,773	4,441
Percent (Increase)	50%	56%	15%	9.6%	17.7%
Funds Provided by					
Operating Activities	61	134	186	(274)	371
Per Share	0.007	0.014	0.020	(0.029)	0.037
Net Earnings	110	170	188	154	293
Net Earnings Per Share	0.012	0.018	0.019	0.016	0.029
Net Capital Expenditures	52	387	207	65	106

## SHARE INFORMATION

Trading Volumes (000's)	871	488	1,616	1,909	2,179
Shares Outstanding (000's)	9,300	9,525	9,535	9,975	9,975
Price High (\$)	0.25	0.19	0.34	0.50	0.60
Price Low (\$)	0.12	0.10	0.15	0.20	0.30



## Management Report to the Shareholders

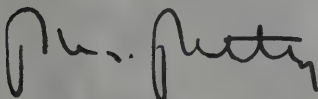
The accompanying consolidated financial statements of Highwood Distillers Ltd. are the responsibility of management. The financial and operating information presented in the Annual Report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies disclosed in the notes to the financial statements. When necessary, management has made informed judgements and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

An independent firm of Certified Management Accountants, as appointed by the Shareholders, examines the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provides an independent professional opinion.

The Board of Directors carries out its responsibility for the financial reporting and internal controls principally through its audit committee. This committee has met with the external auditors and management in order to review accounting, auditing, internal accounting controls and financial reporting matters.



*Philip A. Peterson*  
Chairman of the Board



*Ronald Stothers*  
President

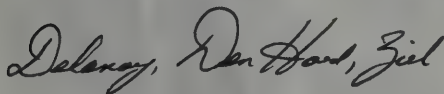
## Auditor's Report

### *To the Shareholders of Highwood Distillers Ltd.*

We have audited the balance sheet of Highwood Distillers Ltd. as at January 31, 1995 and the statements of income and retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1995, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



*Delaney, Den Hoed, Ziel*  
Certified Management Accountants  
High River, Alberta

May 5, 1995, except as to Note 13b) which is as of May 18, 1995



# Balance Sheet

(January 31, 1995)

	1995	1994
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 154,965	\$ -
Accounts receivable	263,325	236,756
Income tax	-	32,152
Inventories	1,639,883	1,509,418
Prepays and other	2,277	3,692
	<u>2,060,450</u>	<u>1,782,018</u>
Net Capital Assets (Note 2)	925,596	870,109
Total Assets	<u>\$ 2,986,046</u>	<u>\$ 2,652,127</u>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank overdraft	\$ -	\$ 1,672
Bank loan (Note 3)	-	540,000
Accounts payable	229,305	147,630
Income tax	53,091	-
Current portion of long term debt	73,832	41,194
	<u>356,228</u>	<u>730,496</u>
Long Term Debt (Note 4)	1,144,582	745,855
Deferred Income Taxes (Note 5)	74,638	58,067
Total Liabilities	<u>1,575,448</u>	<u>1,534,418</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 6)	562,624	562,624
Retained Earnings	847,974	555,085
Total Shareholders' Equity	<u>1,410,598</u>	<u>1,117,709</u>
Total Liabilities and Shareholders' Equity	<u>\$ 2,986,046</u>	<u>\$ 2,652,127</u>

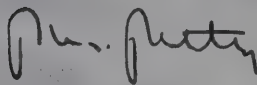


# Statement of Income and Retained Earnings

(for the year ended January 31, 1995)

	1995	1994
SALE OF SPIRITS	\$ 4,441,344	\$ 3,772,683
COST OF SALES	<u>2,470,910</u>	<u>1,994,088</u>
GROSS MARGIN	1,970,434	1,778,595
OPERATING EXPENSES (NOTE 7)	<u>1,474,947</u>	<u>1,499,946</u>
INCOME FROM DISTILLERY OPERATIONS	495,487	278,649
CORPORATE ADMINISTRATION	<u>58,076</u>	<u>35,790</u>
INCOME BEFORE TAX	437,411	242,859
INCOME TAXES (NOTE 8) - CURRENT	127,951	82,107
- DEFERRED	<u>16,571</u>	<u>6,811</u>
NET INCOME	292,889	153,941
RETAINED EARNINGS BALANCE, BEGINNING	<u>555,085</u>	<u>401,144</u>
RETAINED EARNINGS BALANCE, ENDING	<u>\$ 847,974</u>	<u>\$ 555,085</u>
EARNINGS PER SHARE	\$ 0.029	\$ 0.016

Approved on behalf of the Board:



Director



Director



# Statement of Changes in Financial Position

(for the year ended January 31, 1995)

	1995	1994
<b>FUNDS PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 292,889	\$ 153,941
Add: Items not requiring the use of cash:		
Amortization	50,273	47,743
Deferred income taxes	16,571	6,811
	<u>359,733</u>	<u>208,495</u>
Net change in non-cash working capital items:		
Accounts receivable	(26,569)	740
Income taxes	85,243	(76,778)
Inventories	(130,465)	(347,273)
Prepays and other	1,415	2,666
Accounts payable	81,675	(61,515)
	<u>371,032</u>	<u>(273,665)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of shares	-	48,400
Issue of convertible debenture	750,000	-
Payments on long term debt	(318,635)	(43,771)
	<u>431,365</u>	<u>4,629</u>
<b>INVESTING ACTIVITIES</b>		
Additions to distillery equipment	(18,181)	(18,628)
Additions to bottle molds	(60,126)	-
Additions to office equipment	(2,717)	(229)
Additions to barrels	(24,736)	(45,961)
	<u>(105,760)</u>	<u>(64,818)</u>
<b>CHANGE IN CASH</b>	696,637	(333,854)
Cash/(Cash deficiency), beginning	(541,672)	(207,818)
Cash/(Cash deficiency), ending	<u>154,965</u>	<u>(541,672)</u>
Cash/(Cash deficiency) balances are comprised of:		
Cash	154,965	-
Bank overdraft	-	(1,672)
Bank loan	-	(540,000)
	<u>\$ 154,965</u>	<u>\$ (541,672)</u>
<b>FUNDS PROVIDED BY (USED IN )</b>		
<b>OPERATING ACTIVITIES PER</b>		
<b>COMMON SHARE</b>	\$ 0.037	\$ (0.029)



# Notes to January 31, 1995 Financial Statement

(for the year ended January 31, 1995)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The Financial Statements include the accounts of Highwood Distillers Ltd. (incorporated under the laws of Alberta, Canada) and its wholly owned subsidiary, Sunnyvale Trading (Barbados) Inc. (incorporated on February 25, 1994, under the laws of Barbados and operates as an International Business Company).

### Foreign Currency Translation

The accounts of Sunnyvale Trading (Barbados) Inc. are maintained in United States currency and have been translated into Canadian currency using end-of year exchange rates.

### Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average basis and includes raw materials, labour and utility costs associated with production of spirits and bottling. In accordance with industry practice, current assets include spirits which, in the Company's normal business cycle, are aged for a varying number of years.

### Capital Assets

Capital assets are recorded at cost. Amortization is provided using the diminishing balance method at annual rates as follows (in the year of acquisition 50% of the applicable rate is used): buildings: 5%, distillery equipment: 20%, office equipment: 20%. Bottle molds are amortized over the estimated useful life at 10% straight line. Wooden aging barrels are not amortized as their salvage value is estimated to be not less than cost.

### Earnings Per Share

Earnings per share are calculated using the weighted average number of outstanding common shares plus, when dilutive, common share equivalents (share purchase options). Fully diluted earnings per share assume exercise of share purchase options, conversion of convertible debt securities and elimination of related after-tax interest and discount expense.

## 2. CAPITAL ASSETS

	1995			1994
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 53,879	\$ -	\$ 53,879	\$ 53,879
Buildings	671,716	178,962	492,754	518,691
Distillery Equipment	626,165	550,293	75,872	74,398
Bottle Molds	60,126	4,009	56,117	-
Office Equipment	42,659	26,832	15,827	16,730
Barrels	231,147	-	231,147	206,411
	<u>\$1,685,692</u>	<u>\$760,096</u>	<u>\$925,596</u>	<u>\$ 870,109</u>

## 3. BANK LOAN

The bank loan is a revolving demand line of credit and has an interest rate of prime plus 1%. The bank loan and the long term debt (see Note 4) are secured with:

- a debenture for \$1,500,000 with a first fixed charge covering the distillery plant, inventory and equipment;
- a floating charge over all other assets;
- general assignment of book debts.

## 4. LONG TERM DEBT

	1995	1994
Demand term loan due on March 31, 1996, with bi-weekly blended principal and interest payments of \$4,512. Interest is fixed at 9.75% per annum. Secured as described in note 3.	\$ 468,415	\$ 787,049

7.5% Convertible debenture due July 26, 1997 and convertible to common shares at \$0.50 per share on or prior to July 26, 1995; at \$0.55 per share on or prior to July 26, 1996; and at \$0.60 per share on or before July 26, 1997.(a)

	750,000	-
	1,218,415	787,049
Less current portion	(73,832)	(41,194)
	<u>\$ 1,144,583</u>	<u>\$ 745,855</u>

Estimated principal repayments during the next five years are:

1996	\$ 73,832
1997	84,647
1998 (a)	839,984
1999	99,155
2000	109,261
	<u>\$ 1,206,879</u>

(a) The Company will use its reasonable best efforts to obtain approval from the Alberta Stock Exchange for an extension of time for the third year ending July 26, 1997. Alternatively, the unconverted portion of the debenture would be due July 26, 1996.

# Notes to January 31, 1995 Financial Statement

(for the year ended January 31, 1995)

## 5. DEFERRED INCOME TAXES

The Company provides for income taxes on its income at the rate of approximately 36% (1994: 37%). There are, however, certain deductions available for tax purposes which are in excess of amounts recorded by the Company. The accumulated amount of the extra deductions and the amount of future (deferred) taxes payable associated with them is summarized below.

	1995	1994
Net cumulative deductions claimed for tax purposes, relating to capital assets, in excess of amortization recorded for financial statement purposes.	\$ 205,389	\$ 154,052
Deferred tax thereon	\$ 74,638	\$ 58,067

## 6. SHARE CAPITAL

a) Authorized:	1995	1994
Unlimited number of common voting shares without nominal or par value.		
Unlimited number of preferred shares, issuable in series, with rights to be determined upon issuance.		
b) Issued:		
Common: 9,975,000 share	\$ 562,624	\$ 562,624

The following is a summary of the changes in share capital during the year:

	1995			1994		
	Common Shares	Number		Common Shares	Number	
	Number	Amount	of Options	Number	Amount	of Options
Balance, beginning	9,975,000	\$ 562,624	-	9,535,000	\$ 514,224	440,000
Options exercised(a)				440,000	48,400	(440,000)
Options issued(b)			900,000			
Options issued(c)			1,500,000			
Balance, ending	9,975,000	\$ 562,624	2,400,000	9,975,000	\$ 562,624	-

(a) Options exercisable by directors of the Company at \$ 0.11 per Common Share until January 31, 1994 were exercised on October 8, 1993.

(b) Options issued to directors of the Company on April 8, 1994 are exercisable at \$ 0.43 per Common Share until April 8, 1999 as follows:

The "conditional" options are subject to certain performance targets having to be met.

	Number of Shares		Exercisable after:
	Unconditional	Conditional	
	100,000	200,000	April 7, 1995
	100,000	225,000	April 7, 1996
	75,000	200,000	April 7, 1997
	<u>275,000</u>	<u>625,000</u>	

(c) Options issued on June 15, 1994 for 1,500,000 Common shares are exercisable by the debenture holder (Note 4) until June 15, 1997 as follows:

Exercise price on or before:	June 15, 1995	June 15, 1996	June 15, 1997*
Exercise price per Common Share:	\$ 0.50	\$ 0.55	\$ 0.60

\*see note 4<sup>(a)</sup>

## 7. OPERATING EXPENSES

Operating expenses consists of the following:

	1995	1994
Advertising and promotion	\$ 124,945	\$ 179,312
Amortization	50,273	47,743
Consulting fees	33,000	24,250
Insurance and bonding	13,319	10,887
Interest and bank charges	26,191	34,694
Interest on long term debt	84,339	73,423
Management salaries	59,659	59,232
Office, postage and sundry	12,689	10,489
Other	17,693	25,293
Professional fees	65,062	44,101
Property taxes	27,304	29,131
Repairs and maintenance	29,683	22,640
Sales commission	764,815	750,443
Telecommunications	11,127	10,217
Travel	4,610	30,953
Utilities	71,020	66,884
Wages and benefits	412,622	423,203
Wages and utilities charged to inventory	(333,404)	(342,909)
	<u>\$ 1,474,947</u>	<u>\$ 1,499,986</u>



# Notes to January 31, 1995 Financial Statement

(for the year ended January 31, 1995)

## 8. INCOME TAXES

The components of income before income taxes were:

	1995	1994
Canada	\$ 400,859	\$ 242,859
Barbados	39,329	-
	<u>\$ 440,188</u>	<u>\$ 242,859</u>

The components of income tax expense were:

	1995	1994
Current:		
Canada	\$ 126,913	\$ 82,107
Barbados	1,038	-
	<u>127,951</u>	<u>82,107</u>
Deferred:		
Canada	16,571	6,811
Barbados	-	-
	<u>16,571</u>	<u>6,811</u>
Total income tax expense	<u>\$ 144,522</u>	<u>\$ 88,918</u>

## 9. SEGMENTED INFORMATION:

The Company and its subsidiary operate in Canada and Barbados in one dominant industry, the processing and distribution of liquor products. Inter-segment sales are priced at a level which provides the Canadian segment with a reasonable profit expected for the activities devoted to the inter-segment sales.

### Geographic Segments

Sales:	1995	1994
Canada	\$4,303,992	\$3,772,683
Barbados	487,789	-
Less inter-segment sales	(350,437)	-
Consolidated Sales	<u>\$4,441,344</u>	<u>\$3,772,683</u>

### Contribution to income

Canada	\$ 257,375	\$ 153,941
Barbados	35,514	-
	<u>\$ 292,889</u>	<u>\$ 153,941</u>

### Identifiable assets:

Substantially all of the Company's assets are located in Canada.

Export sales were made through the Company's wholly owned subsidiary in the current year and directly in the prior year.

Export sales totaled \$487,789 during the 1995 fiscal year and \$30,625 in the 1994 fiscal year.

## 10. CONTRACTUAL OBLIGATIONS

The Company is party to exclusive marketing agreements of its products. The agreements may, under certain circumstances, be terminated with written notice by the Company.

Exclusive Marketing Area	Expiry
Alberta, Newfoundland, Northwest Territories	January 31, 1998
Saskatchewan	March 31, 1996
British Columbia	March 31, 1997
Manitoba	March 31, 1997

The Company has entered into an agreement with a supplier to purchase a certain amount of blended whiskey by June 30, 1995.

As at January 31, 1995 the outstanding commitment totaled \$625,628.

## 11. RELATED PARTY TRANSACTIONS

During the year, the Company dealt with certain companies and individuals related to one or more directors and/or officers of the Company. These transactions are included in the accounts of the Company as follows:

	1995	% of	1994	% of
Nature of transaction	Amount	Sales	Amount*	Sales
Sales Commission	\$ 72,444	1.63	\$ 617,981	16.38
Advertising and Promotions	4,344	0.10	75,435	2.00
Corporate Administration (excluding directors fees)	3,241	0.07	7,172	0.19
Consulting fees	33,000	0.74	24,250	0.64
	<u>\$ 113,029</u>	<u>2.54</u>	<u>\$ 724,838</u>	<u>19.21</u>

\*The 1994 amounts include \$507,877 paid to a firm as compensation for its marketing and sales responsibilities in various provinces. A principal of this firm is no longer an officer of the Company.

As at January 31, 1995 the Company owed these related parties \$13,514 (1994: \$57,886).

## 12. REMUNERATION OF DIRECTORS

During the year six directors were paid fees totaling \$9,000 (1994: \$9,000) included in Corporate Administration expense.

## 13. SUBSEQUENT EVENT

a) Subsequent to the year end the Company, along with Joint Venture partners, have completed the formal signing of Agreement for Establishment of a Joint Venture. The Company will earn a 45% interest, after payout, to complete construction and manage a major brewery in the city of Tbilisi in the republic of Georgia, in the former Soviet Union. Under the terms of Agreement, the Company will manage the development of a feasibility study/business plan which is expected to be completed by September 31, 1995.

b) There may be a claim asserted against the company under the Excise Act or Customs Act. At this Time, the likelihood of such a claim being asserted, the dollar value of such a claim and the likely outcome of such claim, if asserted, are not ascertainable.

## 14. COMPARATIVE FIGURES

The prior year comparative figures have been reclassified to conform to the current year presentation.



# CORPORATE DIRECTORY

## Board of Directors

Phillip A. Peterson  
President  
MJ Software  
Calgary, Alberta

Ronald Stothers  
President  
Highwood Distillers Ltd.  
High River, Alberta

Vincent Klinot  
President  
Comox Realty Ltd.  
Calgary, Alberta

Arthur New  
President  
Panorama Public & Industrial  
Communications Ltd.  
Calgary, Alberta

Bernard Pringle  
President  
DSA Machinery Consultants Ltd.  
Vancouver, British Columbia

Gary Thompson\*  
President  
Tri-Net Inc.  
Coquitlam, British Columbia

## Officers

Phillip A. Peterson  
Chairman of the Board

Ronald Stothers  
President & CEO

Vincent Klinot  
Secretary Treasury & C.F.O.

## Auditors

Delanoy, Den Hoed, Ziel  
Certified Management  
Accountants  
#200, 14 - 2nd Avenue S.E.  
High River, Alberta  
T1V 1G4

## Bankers

Alberta Treasury Branches  
Main Branch, Calgary

## Transfer Agent and Registrar

The R-M Trust Company  
600, 333 7th Avenue S.W.  
Calgary, Alberta  
T2P 2Z3

## Legal Counsel

Blake, Cassels & Graydon  
3500, 855 2nd Street S.W.  
Calgary, Alberta  
T2P 4J8

## Audit Committee

Phillip A. Peterson, Chairman  
Ronald Stothers, President  
Arthur New, Director

## Head Office

P.O. Box 5693  
114 - 10th Avenue S.E.  
High River, Alberta  
T1V 1M7  
Tel: (403) 652-3202  
Fax: (403) 652-4227

## Sales Offices

Box 134  
Okotoks, Alberta  
TOL 1T0  
Tel: (403) 938-7107  
Fax: (403) 938-4760

102, 615 Terehudoff Crescent  
Saskatoon, Saskatchewan  
S7N 4K6  
Tel: (306) 244-0343

174 South Moor Road  
Winnipeg, Manitoba  
R2J 2P4  
Tel: (204) 256-1598  
Fax: (204) 256-1809

34 Nichol Avenue  
Winnipeg, Manitoba  
R2M 1V9  
Tel: (306) 992-2109

7630 Winston Street  
Burnaby, British Columbia  
V5A 2H4  
Tel: (604) 420-9535  
Fax: (604) 420-7660

## Stock Exchange Listing

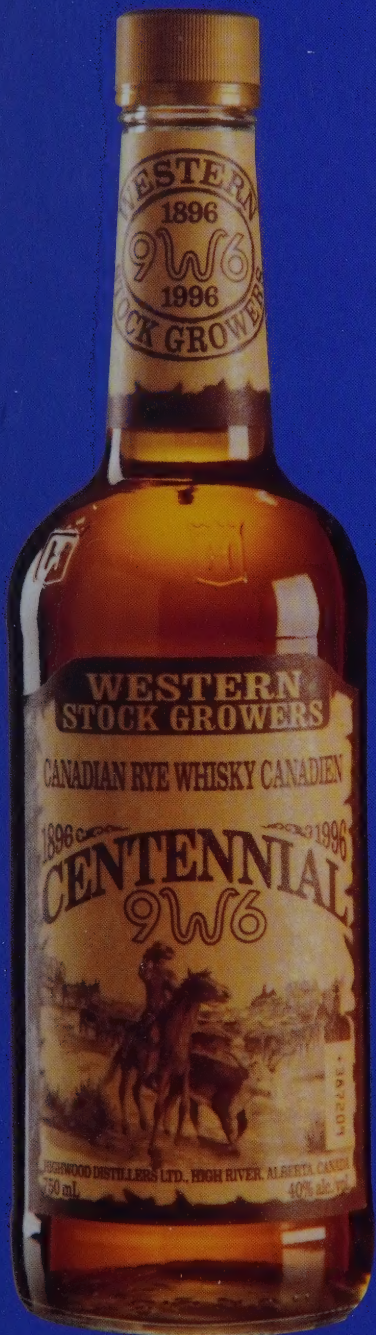
Alberta Stock Exchange  
Trading Symbol: HDL

*As of January 31, 1995 there were 9,975,000  
million shares issued and outstanding.*

*Incorporated under the Alberta Business  
Corporations Act.*

\* Resigned from the Board in May 1995









**HIGHWOOD**  
DISTILLERS